



Center for Social and Economic Research

## Reserve requirements in Poland

Rafal Antczak, Malgorzata Markiewicz

Warsaw, October 7, 1998

Central bank can influence monetary conditions through its impact on base money. There are five main instruments available: foreign exchange intervention; open market operations; financing of the budget deficit; rediscount policy; and reserve requirements.

### *Current laws and principles<sup>1</sup>*

Commercial banks in Poland are obliged to calculate and maintain required reserve on accounts at the National Bank of Poland (NBP). Required reserve (RR) is calculated from all zloty and foreign currency deposits within commercial banks (Table 1), except from resources:

- gained by a bank from repo transactions with the other domestic bank(s) and
- budget resources devoted to the restructuring and modernization of agriculture and environment protection (based on agreements reached only till June 30, 1998).

Until January 31, 1999 the basis for the calculation of RR constitutes the arithmetical average of the stock of resources at the end of the first and second decade and the last day of the month. After that date, banks will be obliged to calculate and

---

<sup>1</sup> Based on art. 40 and art. 41, Law on National Bank of Poland from August 29, 1997 and Resolution of the Board of Directors of NBP No. 10/98 from June 5, 1998.

deposit RR on a daily basis. RR is calculated and deposited only in cash zlotys (using NBP daily exchange rates for foreign currency resources). RR is transferred on the account at the NBP the last day of the next month for the month the RR is calculated. All banks maintain RR at their current account at the NBP, except for: the (smallest) banks that possess their current account at other commercial banks and maintain their RR on required reserve account at the NBP and co-operative banks that hold their RR in regional banks they are associated with. The regional banks maintain combined RR (RR of the associated banks and of their own) in Agricultural Bank that holds RR on current account at the NBP.

Bank is allowed to maintain RR on the account at the NBP in smaller amount than stipulated by the law, however not less than 90% of that amount, if it undertakes to maintain in the bank's safes the stock of cash in the Polish zloty in amount equaled the difference between RR and the amount deposited at the NBP on its current account. Daily excess of the stock of cash over the declared one to the NBP is not counted as RR.

In case of the non-fulfillment of the amount of RR stipulated by the law, banks pay interests being the difference between required amount and the actual one maintained during this period. The interests equal the double Lombard credit rate for this period and have to be paid on the account at the NBP (one account for all banks) within seven days after receiving notification from the NBP. The interests are calculated by the NBP with respect to the banks that possess current accounts or reserve accounts at the NBP, or by Agricultural Bank with respect to regional banks, or by regional banks with respect to the co-operative banks they associate.

All banks deliver to the banks that maintain their current accounts or reserve accounts declaration of RR and the stock of cash in safes according to the example provided in the annex of respected resolution. If the amount of RR transferred to the NBP is smaller than stipulated by the law, the bank is obliged to provide information on the stock of cash in its safes on a daily basis to the NBP.

### *Historical perspective*

RR has never brought any interests to the commercial banks in Poland. Payments of interests on RR is not mentioned in the new Law on the National Bank of Poland from August 29, 1997, contrary to the previous law where RR were divided on three parts (cash held in the safes of commercial banks, no interests bearing, and interests bearing reserves) and interests were transferred to the budgetary Agency of Restructuring and Modernization of Agriculture. Obviously, it was a result of political lobbying of the agrarian party that was in power shared with post-communist party (within the period 1993-1997).

In Poland, the NBP and commercial banks report according to the principles of International Accounting Standards (IAS). The first plan of accounts was introduced in 1991 and standard plan of accounts in February 1995. Within this period, commercial banks were allowed to run their internal accounting according to the old principles, but report to the NBP only according to the IAS. Since 1995, banks report on a monthly basis according to the IAS, but reserves are reported once per decade (at the end of the accounting month on a decade basis has to be equal a monthly basis). Since 1999, the daily plan of accounts for calculation of RR becomes obligatory for all banks.

As stipulated by the law, the NBP personnel execute supervision over a proper accounting and transfer of RR on respected accounts. The amount of commercial banks being in operation in Poland (around 70 in October 1998 from 86 in 1992) and lack of personnel does not allow for in-site examination of more than 3-4 banks per year. Off-site examination is based on the declarations received on a decade and monthly basis (soon, also on a daily basis) and the IAS principles according which banks report. Also, increasing competition among banks requires hiring of the world known accounting firms. After the year of 2000, General Inspectorate of the Banking Supervision is thought to take over this responsibility.

The Polish law and a good practice in the banking sector do not accept any gradation of fines in case of the non-fulfillment of RR obligations (or any other ones) by banks. The payment of penalty interests must be done under the threat of losing the banking license. Commercial banks have a legal right to sue decisions of the NBP to the Highest Administrative Court what has happened twice in Poland after a year 1989. The Court interpreted both lawsuits in favor of the NBP. There is no public disclosure of any piece of information on the level of RR in a particular bank or procedures of the NBP towards particular bank. On the other hand, commercial bank is allowed to reveal any pieces of information or data to the public. Aggregated data on the commercial banks and the NBP are published monthly in the Bulletin of the NBP and are available in the NBP library (free of charge) or can be acquired, or copied.

#### *Practical aspects*

Reserve requirements were changed 13 times since 1990 till October 1998 and the scope of changes remains significant (Table 1 and Table 2). Therefore, the NBP was making efforts to influence the credit policy of the commercial banks through this tool. Additionally, the NBP often used changes in RR as a sterilization tool during periods of credit expansion to the government sector (by the NBP and commercial banks). However, if changes in a broad money multiplier are considered as an indicator of the efficiency of central bank policy towards commercial banks, one should notice ineffectiveness of this tool as multiplier continued to grow and divergence from this trend was insignificant. The importance of RR as a monetary tool to control the expansion of bank credit and the money supply is thought to decline, as the NBP will follow closer the policy of the European Central Bank. Also, a complete openness of the Polish banking sector to the foreign competition beginning from January 1, 1999 will decrease the impact of RR, as foreign banks will remain obliged to the banking law of the country they are registered.

A separate issue is a step-by-step introduction of RR on foreign currency deposits, which were highly concentrated (mostly in one bank, PKO SA). This situation jeopardized the liquidity of the bank(s).

Table 1: Rates of reserve requirement in Poland (1990-1997)

Year	Zloty deposits			Foreign currency deposits		Average rate of reserve requirement (e-o-p)
	a vista	saving deposits	Time deposits	a vista	time deposits	
1990						24.3 %
I quarter	9 %	9 %	9 %	0	0	
II quarter	15 %	15 %	15 %	0	0	
III quarter	30 %	17 %	7 %	0	0	
IV quarter	30 %	30 %	10 %	0	0	
1991						19.2 %
III quarter	30 %	25 %	10 %	0	0	
1992						14.8 %
II quarter	25 %	0	10 %	0	0	
III quarter	23 %	0	10 %	0	0	
1994						9.3 %
I quarter	23 %	0	10 %	0.75 %	0.5 %	
IV quarter	20 %	0	10 %	1 %	1 %	
1995						9.6 %
I quarter	20 %	0	9 %	1 %	1 %	
1996						9.0 %
I quarter	20 %	0	9 %	2 %	2 %	
II quarter	17 %	0	9 %	2 %	2 %	
1997						11.5 %
I quarter	20 %	0	9 %	4 %	4 %	
II quarter	20 %	0	11 %	5 %	5 %	

Source: NBP

Table 2: Broad money multiplier and nominal quarterly changes in monetary aggregates of the banking system<sup>2</sup> in Poland (1993-1998)

Period	Changes in the amount of credit to general government (in % to the previous period)	Changes in the amount of credit to private sector (in % to the previous period)	Changes in RR	Multiplier
1990				
I quarter	32	0		2.54
II quarter	20	170	increase	2.43
III quarter	20	129	increase	2.32
IV quarter	32	40	increase	2.23
1991				
I quarter	18	22		2.28
II quarter	20	40		2.57
III quarter	18	35	decrease	2.59
IV quarter	26	126		2.39
1992				
I quarter	14	12		2.61
II quarter	4	14	decrease	2.71
III quarter	14	6	decrease	2.80
IV quarter	18	8		2.77
1993			constant	
I quarter	11	10		3.01
II quarter	6	12		2.98
III quarter	10	9		3.12
IV quarter	10	8		3.50
1994				
I quarter	2	8	increase	3.40
II quarter	7	7		3.36
III quarter	5	6		3.60
IV quarter	13	9	decrease	3.94
1995				
I quarter	4	11	decrease	3.78
II quarter	- 2	9		3.61
III quarter	1	9		3.56
IV quarter	5	10		3.67
1996				
I quarter	- 1	10	increase	3.68
II quarter	5	11		3.54
III quarter	4	10	decrease	3.78
IV quarter	7	13		3.94
1997				
I quarter	5	13	increase	3.74
II quarter	1	10		3.67
III quarter	1	9	increase	3.60
IV quarter	10	6		3.84
1998			constant	
I quarter	- 6	8		3.78

Source: NBP; IFS IMF August 1998.

<sup>2</sup> Banking system data combines the NBP and commercial banks monetary aggregates.